sent leadership becomes. Why worry? Therefore the fear that there is a more sinister plan in Pakistani latest attempt to hot up the border.

It is being argued by many in the Capital that moves at UN level, and also anions friendly nations, will sooner *or* later have to be followed up by retaliatory diplomatic action, *a la Nasser,* against those who would exploit our present predicament to blackmail us. Whether it is Pakistani skirmishing, or support to an Abdullah or a Phizo, or military involvement with an aggressive neighbour, or mote indirect hostility, we shall have to adopt toucher attitudes. Our carefully civilised postures are apparently misunderstood. Moves *are* tolerated which increase our isolation. We fail to discern who are genuine friends and who are false. We have no reikible yardsticks. And, in the process, crucial national interests are being sacrificed.

These same circles, however, although incensed by the treatment India receives, fail to stress die paramount need for building a spirit of self reliance. This spirit cannot grow spontaneously, as they seem to imagine. It has to be cultivated, canalised and directed into a carefully devised programme of mobilisation and development. A certain degree of what is called regimentation is a necessary part of such a programme, ana there is no reason why we should weaken ourselves merely because we are unable to find the 'perfect' solution to our problems. The defence of our sovereignty, as also the democratic State structure which holds our people together, demands that we free ourselves to a large extent from the many inhibiting influences generated by our dependence on others.

Within a fortnight, Parliament will be preparing for the summer recess. Prime Minister Lai Bahadur will be in the throes of readying himself for a three-week tour of foreign capitals- Various ministers and deputy ministers will be organising visits abroad. The less fortunate of the ruling elite will be content with seminars and conferences at various hill-stations, ft is to be hoped that a nucleus of effective leadership will be left behind to 'hold the fort'.

FROM THE LONDON END

The Budget and Overseas Investment

CALLAGHAN'S Budgel was obviously framed with the foreign banker in view. The main object *of* the Budget was to try and convince foreign bankers of Britain's determination to tackle her balance of payments difficulties without devaluing the pound so that, impressed by 'he stern internal measures taken in the Budget to restrict home demand, there would be less opposition to the renewal of the $ 3.000 million loan in May. On the other hand, too stern a dose of deflation had to be avoided if the old "stop-go" policy so fervently attacked by Labour in opposition was not to be repeated. Generally speaking the comments which have appeared in the press appear to endorse the view that this Budget has found a nice balance between the two objectives.

Again, as a socialist Chancellor, Callaghan had to give some impression that social justice was also one of the aims of the Budget. In order to compensate for increased taxes on beer, spirits and tobacco, the Chancellor has introduced the capital gains tax and the new restriction on all forms of business entertaining. These are quite obviously small sops in order to ensure the success of the incomes policy which will bear heavily on wages and salaries.

The general reactions overseas have been favourable and rumours on devaluation have been now finally scotched. *In* the event, the City is somewhat relieved as the corporation ax the new tax *on* Company profits is not going to be levelled at a penal rate; it is not going to exceed 40 per cent. The companies which will really suffer from the new corporation tax are those which earn a large part of then-income abroad. Thus, companies will be allowed relief on foreign :ax, only to (he extent of their corporation tax liability. With the exception of overseas companies, the immediate effect on industry of the corporation lax should not be too adverse.

Departure from Tradition

Perhaps the most interesting feature of Callaghan's Budget is the direct at-Lack it makes on overseas investment. This is a major departure from the traditional British attitude to foreign investment which has hitherto always been accorded specialised treatmen' and, in the days of colonial super-profits, brought in more than Idequate returns.

The outflow of long-term capital from the U K accounted for half of last year's £745 million deficit on the balance of payments, and the decision to take direct action to improve this balance was certainly justified by the size of the present deficit. The present tax system puts a premium on overseas investment as it tends to favour those who invest abroad, and the Chancellor is now aiming "to change *the* direction" and "to channel home some of the accumulation of assets held in private and abroad". The various steps which the Budget proposes on top of the switch to a corporation tax to discourage companies investing abroad, will bear heavily on companies whose major interest are abroad, and will hit particularly overseas trading corporations—mainly rubber, tin and tea-planting companies who have hitherto paid no profits tax. Overseas trading corporations are companies registered in Britain which operate exclusively abroad. All O T Cs pay lax at the local rate in the countries in which they operate, and have so far been given relief for that reason in the U K. Under the new Budget, their special status will be abolished from April 1966, and the only relief that they can obtain will be if the taxation rates in the countries in which they are operating are higher than the proposed corporation tax rate of 40 per cent.

Since O T Cs will now have to pay dividends gross, many will have to cut their payments drastically. This may well mean that companies will be sold and British capital will be withdrawn from areas in which it is now established. For example, these new measures may make it of interest for British tea plantations, for example, to sell out to local entrepreneurs in India.

For some years now, it has become fairly obvious that Britain, like the United States, simply cannot afford to invest on the scale of the past ten years. Britain which has gold reserves which are half the size of Germany's, is certainly overstretching its resources when it tries to police a major part of the world, to run a world currency and invest on a considerable scale. While Britain's reserves altered very little between 1952 and 1964, private and Government investment overseas amounted to no less than £4,000 million over the same period. As a result, of course, Britain now possesses long-term assets whose value is nearly £11,000 million. This is a very large sum of money to be invested overseas It is true that these investments bring in profits and dividends, but the fact remains that if money is going out at a quicker rate than income is coming in, this certainly *does* not .help the present balance of payments difficulties. It is for this reason that the Government is readjusting the tax structure to make it worth while to invest at home. It is also imposing more rigid exchange control regulations to make sure that future investments ire worth the price that is paid, and it is attempting to get a contribution to the gold reserves from any future sales of foreign assets. These are part of the measures which the Government h taking to preserve the existing parity of the pound. The table gives some information on Britain's stake abroad.

What effect the new restrictions on overseas investment will have on the flow of private capital to the developing world remains to be seen. Deal! as with the direct measures taken to make overseas investment less attractive, the *Financial Times* says: "For example, a company thinking of operating in India will have to see a profit rate 70 per cent above that of the stay-at-home counterpart to make the game worth the candle. This is perhaps fair enough, but what if all that happens is that official aid from the U K has to fill the gap?" Indeed, in recent years much of the argument with regard to the development plans in the emergent world have referred to the fact that Governments of these countries have come to realise that since official Government aid to the developing world is not nearly large enough to cover their development needs, private capital has also an important role to play.

While it was a right decision to take direct action to improve the balance of payments, one of the major omissions in the Budget is that no attempt has been made to lessen Britain's overseas military expenditure. In 1959, Government spending abroad was £175 million; it is now over £300 million. Even the *Times* said: "Yet the Government itself is making no economies on its overseas spending,..There is only one solution—a reduction of military commitments in Germany, the Middle East or the Far East Without a reduction of commitments, no major spending cuts can be forthcoming." Thus, the present Budget leaves untouched military expenditure abroad, one of the root causes of the balance of payments problem.

No Help for Exports

Another omission in the Budget is that very little has been done directly, either to promote Britain's exports or to modernise British economy to meet the challenge of the day. Indeed, planning for economic expansion is singularly absent from the provisions of the Budget. No tax allowance, for example, is being granted to encourage the type of science-based automated industries on which the future of Britain depends. But perhaps the basic reason for this is that under the present system, where economic responsibilities have been divided between the Treasury and Brown's Ministry of Economic Affairs, we must regard the Budget as one half of the plan providing the basic structure for future developments of the economy which will be initiated by Brown.

Again, nothing very much has been done to assist the Regions, and the unequal economic advance in the various regions of Britain is one of the most crucial problems facing the country today. However, Regional Development is to get some encouragement through the new facilities for loans and borrowing.

There is no doubt at all that the Budget has been a great personal triumph for Callaghan, and by and large it has been a moderately successful Budget gearing its priorities to reduce home demand by £230 million so as to resassure the foreigner about the pound and impress overseas bankers, on whose credit Britain still depends, without at the same time imposing too great a degree of deflation at home. What is interesting, however, is that the one point on which both *the* Government and the Opposition seem to agree is that if the Budget has any dangers, they are deflationary. While it is true that the measures taken will still permit the British economy to keep on the move at home, it will also mean a stowing down in the rate of growth for the earlier part of the Government's long-term economic programme.

Table

Country	Net Asset Value £m 1958	1963
Sterling Area	1,357	1,985
U S A	540	666
Canada	258	326
Common Market	145	270
France	49	85
Italy	29	35
Germany	25	70
Latin America	105	180
Other European Countries Outside Common Market	66	124